

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Salem-South Lyon District Library	County Washtenaw
Fiscal Year End June 30, 2007	Opinion Date August 15, 2007	Date Audit Report Submitted to State October 8, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

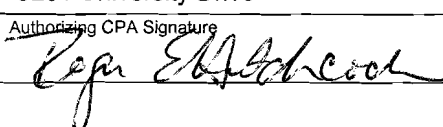
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Andrews Hooper & Pavlik, PLC		Telephone Number (248) 340-6050	
Street Address 3201 University Drive		City Auburn Hills	State MI
		Zip 48326	
Authorizing CPA Signature 		Printed Name Roger E. Hitchcock	License Number 1101014461

**Audited Basic Financial Statements**  
**Salem-South Lyon District Library**  
**Year Ended June 30, 2007**  
**With Report of Independent Auditors**

Salem-South Lyon District Library

Audited Financial Statements

Year Ended June 30, 2007

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## **Report of Independent Auditors**

The Library Board  
Salem-South Lyon District Library  
South Lyon, Michigan

We have audited the financial statements of the Salem-South Lyon District Library (the "Library") as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Salem-South Lyon District Library as of June 30, 2007, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The required supplemental information is presented for the purpose of additional analysis and is not a required part of the financial statements of Salem-South Lyon District Library. The information has been subjected to the procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The Library has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the financial statements.

*Andrews Hooper & Pavlik P.L.C.*

Auburn Hills, Michigan  
August 15, 2007

Salem-South Lyon District Library  
Balance Sheet / Statement of Net Assets  
June 30, 2007

	General Fund	Debt Service Fund	Balance Sheet - Modified Accrual Basis	Adjustments	Statement of Net Assets
<b>Assets:</b>					
Cash and cash equivalents	\$ 332,880	\$ 139,070	\$ 471,950	\$ -	\$ 471,950
Investments	1,069,981	-	1,069,981	-	1,069,981
Other assets	14,179	-	14,179	-	14,179
Due from other funds	-	6,628	6,628	(6,628)	-
Capital assets - net of accumulated depreciation	-	-	-	2,127,516	2,127,516
Total assets	<u>\$ 1,417,040</u>	<u>\$ 145,698</u>	<u>\$ 1,562,738</u>	<u>2,120,888</u>	<u>3,683,626</u>
<b>Liabilities:</b>					
Accounts payable	\$ 9,007	\$ -	\$ 9,007	-	9,007
Accrued liabilities	9,993	-	9,993	11,654	21,647
Due to other funds	6,628	-	6,628	(6,628)	-
Current portion of long-term debt	-	-	-	140,000	140,000
Total current liabilities	25,628	-	25,628	145,026	170,654
Long-term liabilities - net of current portion	-	-	-	1,425,072	1,425,072
Total liabilities	<u>25,628</u>	<u>-</u>	<u>25,628</u>	<u>1,570,098</u>	<u>1,595,726</u>
<b>Fund Balances and Net Assets:</b>					
Fund balance - reserved for debt service	-	145,698	145,698	(145,698)	-
Fund balance - unrestricted					
Designated for capital improvements	1,186,365	-	1,186,365	(1,186,365)	-
Designated for fundraising	2,748	-	2,748	(2,748)	-
Designated for education and training	2,299	-	2,299	(2,299)	-
Undesignated	200,000	-	200,000	(200,000)	-
Total fund balances	<u>1,391,412</u>	<u>145,698</u>	<u>1,537,110</u>	<u>(1,537,110)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 1,417,040</u>	<u>\$ 145,698</u>	<u>\$ 1,562,738</u>		
<b>Net Assets:</b>					
Invested in capital assets, net of related debt				582,516	582,516
Restricted for debt				145,698	145,698
Unrestricted				1,359,686	1,359,686
Total net assets				<u>\$ 2,087,900</u>	<u>\$ 2,087,900</u>

Salem-South Lyon District Library  
Statement of Revenues, Expenditures and  
Changes in Fund Balance / Statement of Activities  
Year ended June 30, 2007

	General Fund	Debt Service Fund	Revenues and Expenditures - Modified Accrual Basis	Adjustments	Statement of Activities
<b>Revenues:</b>					
Property tax	\$ 745,929	\$ 238,010	\$ 983,939	\$ -	\$ 983,939
Service contract - Green Oak Township	205,778	11,995	217,773	-	217,773
Fines and fees	75,096	-	75,096	-	75,096
State aid	17,764	-	17,764	-	17,764
Gifts and miscellaneous	20,773	-	20,773	-	20,773
Interest on investments	74,141	5,765	79,906	-	79,906
Other	726	-	726	-	726
Total revenues	<u>1,140,207</u>	<u>255,770</u>	<u>1,395,977</u>	<u>-</u>	<u>1,395,977</u>
<b>Expenditures:</b>					
Personnel	563,409	-	563,409	(6,460)	556,949
Library services and materials	153,597	-	153,597	(98,989)	54,608
Facilities and equipment	144,305	-	144,305	(50,871)	93,434
Other expenditures	54,679	-	54,679	-	54,679
Debt service	-	206,125	206,125	(130,975)	75,150
Depreciation	-	-	-	184,202	184,202
Total expenditures	<u>915,990</u>	<u>206,125</u>	<u>1,122,115</u>	<u>(103,093)</u>	<u>1,019,022</u>
<b>Excess of revenues over expenditures and change in net assets</b>	<u>224,217</u>	<u>49,645</u>	<u>273,862</u>	<u>103,093</u>	<u>376,955</u>
<b>Other financing sources (uses)</b>					
Transfers	<u>11,995</u>	<u>(11,995)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>11,995</u>	<u>(11,995)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Changes in fund balance</b>	<u>236,212</u>	<u>37,650</u>	<u>273,862</u>	<u>103,093</u>	<u>376,955</u>
<b>Fund balance/net assets - beginning of year</b>	<u>1,155,200</u>	<u>108,048</u>	<u>1,263,248</u>	<u>447,697</u>	<u>1,710,945</u>
<b>Fund balance/net assets - end of year</b>	<u>\$ 1,391,412</u>	<u>\$ 145,698</u>	<u>\$ 1,537,110</u>	<u>\$ 550,790</u>	<u>\$ 2,087,900</u>

# Salem-South Lyon District Library

## Notes to the Basic Financial Statements

June 30, 2007

### **1. Summary of Significant Accounting Policies**

#### **Introduction**

The accounting policies of Salem-South Lyon District Library (the “Library”) conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

The significant accounting policies utilized by the Library are described below.

#### **Financial Reporting Entity**

The Library was established in May 1993 by a District Library Agreement between Salem Township and the City of South Lyon pursuant to the District Library Establishment Act. The Library’s boundaries include the City of South Lyon, Michigan and Salem Township, Michigan, and a small area of Salem Township located within the jurisdiction of the Ann Arbor Public Schools. The Library is funded through a tax levy on property located within the district, as well as fines, fees and state aid.

In evaluating how to define the Library for financial reporting purposes, management has considered all potential component units. The decision to include or not include a potential component unit in the reporting entity was made by applying the criteria set forth in the accounting principles generally accepted in the United States of America, currently GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

Based upon the application of those criteria, the government-wide financial statements of the Library contain all the funds controlled by the Library’s Board of Trustees as no other entity meets the criteria to be considered a blended component unit or a discretely presented component unit of the Library.

#### **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting of the Library conforms to accounting principles generally accepted in the United States of America as applicable to governmental units.

The Library’s financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library’s major funds).

Notes to the Basic Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)**

**Government-wide Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three components – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

**Fund Financial Statements**

Governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. With this focus, statements of revenues, expenditures and changes in fund balances present increases and decreases in net current assets and unreserved fund balance as a measure of the available spendable resources. Governmental funds are used to account for all or most of the Library's general activities, including the collection and disbursement of earmarked resources.

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Governmental funds and agency funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they are both "measurable and available"). Revenue is considered available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes, interest, state aid and the service contract revenues are susceptible to accrual and are considered available if they are collected within 60 days of the fiscal year. Other revenues become measurable and available when cash is received by the Library and are recognized as revenue at that time. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

**The Library reports the following major governmental funds:**

**General Fund**

This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the Library. Revenues are derived primarily from property taxes, state aid distributions, grants and other intergovernmental revenues.



## Salem-South Lyon District Library

### Notes to the Basic Financial Statements (continued)

#### **1. Summary of Significant Accounting Policies (continued)**

##### **Debt Service Fund**

This fund accounts for the retirement of the 1996 General Obligation Unlimited Tax bonds.

##### **Assets, Liabilities and Equity**

##### **Cash and Cash Equivalents**

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and all highly liquid investments purchased with a maturity of three months or less from the date of acquisition.

##### **Investments**

Investments are carried at market value based on quoted market prices and consist of certificates of deposit, governmental cash funds and mutual funds.

##### **Interfund Receivables and Payables**

In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending and borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

##### **Capital Assets**

Capital assets are defined by the Library as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated property and equipment are valued at their estimated fair value on the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Building and improvements	30 years
Equipment, furniture and fixtures	5 – 7 years
Library books, periodicals and videos	3 years

Notes to the Basic Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)**

**Other Assets**

Certain payments to vendors reflect costs applicable to the upcoming fiscal year and are recorded as prepaid items in both government-wide and fund financial statements.

**Compensated Absences**

It is the Library's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the government funds only for employee terminations as of year end.

**Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental funds types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Service Contract Revenue**

The Library also services Green Oak Township under a separate operating agreement. The fee for this service is funded by a millage of Green Oak Township.

**Income Taxes**

The Library is a governmental sub-unit organization and as such is not subject to federal income tax.

## **1. Summary of Significant Accounting Policies (continued)**

### **Use of Estimates**

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

### **2. Cash and Cash Equivalent Deposits – Custodial Credit Risk**

Cash deposits and investments (certificates of deposit with maturities less than 90 days, money market funds and a governmental cash fund) are carried at cost. Cash deposits and investments of the Library are in the name of the Library at various banks and investment companies.

At June 30, 2007, the Library had two depository accounts, a bank money market account and a government cash investment account. The Library follows Michigan Compiled Laws, Section 129.91, authorizing deposits and investments in the accounts of federally insured banks, credit unions and savings and loan associations that have offices in Michigan. The bank balance of the Library's bank deposits, consisting of checking and money market accounts, certificates of deposit with maturities less than 90 days and a government cash investment account were \$499,947. Of the bank balance, \$227,617 was covered by Federal Depository Insurance and \$272,330 was uninsured and uncollateralized; therefore, subjecting the Library to custodial credit risk. Custodial credit risk is the risk that, in the event of a bank failure, the Library's deposits may not be returned. The Library does not have a deposit policy for custodial credit risk. However, the Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# Salem-South Lyon District Library

## Notes to the Basic Financial Statements (continued)

### 3. Investments

At June 30, 2007, the Library had the following investments with maturities less than one year:

	Fair Market Value
Deposits:	
Certificates of Deposit (less than 90 days)	\$ 82,142
Certificates of Deposit (more than 90 days)	256,818
Money Market	139,070
Government Cash Investment Fund	233,261
Investments:	
Mutual Funds	813,163
Total investments	<u>\$ 1,524,454</u>
Less investments reported as "Cash and Cash Equivalents" on the Statement of Net Assets	454,473
Total investments	<u><u>\$ 1,069,981</u></u>
As reported on Statement of Net Assets	
Current investments	\$ 1,069,981
Noncurrent investments	-
Total investments	<u><u>\$ 1,069,981</u></u>

### Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Library's investment policy does not specifically address interest rate risk. The Library's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market.

### Credit Risk

Credit risk is the risk that an issuer of or counterparty to an investment will not fulfill its obligations. The Library's investments are limited by those authorized under Public Act 20 of 1943 (as amended) for credit risk. The Library also has the following investment policies further limiting its investment choices:

- Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the state under a law or rule of the state or the United States.

Notes to the Basic Financial Statements (continued)

**3. Investments (continued)**

- Commercial paper rated at the time of purchase at the highest classification established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase. Total portfolio investment shall not exceed 10%.
- Repurchase agreements consisting of instruments listed in above. Repurchase agreements shall be negotiated only with dealers or financial institutions with whom the Library has negotiated a Master Repurchase Agreement. Repurchase agreements must be signed with the bank or dealer and must contain provisions comparable to those outlined in the Public Security Association's model Master Purchase Agreement.
- Bankers' acceptances of United States banks.
- Mutual Funds registered under the Investment Company Act of 1940, maintain a \$1.00 per share net asset value and with authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- Investment pools organized under the surplus funds Investment Pool Act, 1982 PA 367, 129.11 to 129.118.

As of June 30, 2007, the credit quality rating of the public funds investment trust mutual funds with a fair value of \$813,163 were Aaa by Moody's and AAAm by Standard and Poor's. The credit quality rating of the mutual funds with a fair value of \$233,261 were A1 by Moody's and P1 by Standard and Poor's. The money market account was rated Aaa by Moody's. Certificates of deposit are not rated however, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Library does not have a deposit policy for custodial credit risk of investments. The Library's investments in mutual funds are not exposed to custodial credit risk. The Library's certificates of deposit are not rated, however the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# Salem-South Lyon District Library

## Notes to the Basic Financial Statements (continued)

### 3. Investments (continued)

#### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The Library's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. To limit its exposure to concentration of credit risk, the Library's investment policy limits its investment choices by maturity dates, individual financial institutions or specific class of securities in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. Investments in mutual funds, external investment pools and other pooled investments are excluded from concentration of credit risk disclosures.

#### Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. State law and the Library's policy prohibit investment or deposit in foreign currency.

### 4. Capital Assets

A summary of capital asset activity of the Library is as follows:

	Balance 6/30/06	Additions	Disposals	Balance 6/30/07
Assets not being depreciated:				
Land	\$ 152,000	\$ -	\$ -	\$ 152,000
Other capital assets:				
Building	2,399,816	20,418	-	2,420,234
Equipment, furniture and fixtures	439,825	30,453	(15,097)	455,181
Library books, periodicals and videos	966,761	98,989	(128,940)	936,810
Subtotal	3,806,402	149,860	(144,037)	3,812,225
Accumulated depreciation	(1,796,544)	(184,202)	144,037	(1,836,709)
Net capital assets being depreciated	2,009,858	(34,342)	-	1,975,516
Capital assets – net	<u>\$ 2,161,858</u>	<u>\$ (34,342)</u>	<u>\$ -</u>	<u>\$ 2,127,516</u>

Depreciation expense for the year ended June 30, 2007 was \$184,202.

Salem-South Lyon District Library

Notes to the Basic Financial Statements (continued)

**5. Long-term Debt**

At June 30, 2007, outstanding debt consisted of the following:

Accumulated employee benefits payable to employees under the Library's vacation and sick pay policy. \$ 20,072

Unlimited Tax General Obligation Bonds, for the purpose of acquiring, constructing, equipping and furnishing a library building, which were dated February 1, 1996. The debt is secured by a pledge of the Library's limited tax full faith and credit. Due in installments May 1, 2004 through May 1, 2016 bearing interest between 4.6 % and 6.5%. 1,545,000

Total long-term debt \$ 1,565,072

The following is a summary of the changes in long-term debt for the year ended June 30, 2007:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Accumulated Employee Benefits	\$ 26,532	\$ 563	\$ 7,023	\$ 20,072
General Obligation Bonds	1,675,000		130,000	1,545,000
	<u>\$ 1,701,532</u>	<u>\$ 563</u>	<u>\$ 137,023</u>	<u>\$ 1,565,072</u>
Less current portion				140,000
Total long-term debt, net of current portion				<u><u>\$ 1,425,072</u></u>

**Debt Service Requirements**

The annual principal and interest requirements through maturity for the general obligation bonds outstanding as of June 30, 2007:

Fiscal Year Ending	Principal	Interest	Total
2008	140,000	69,925	209,925
2009	145,000	63,625	208,625
2010	155,000	57,100	212,100
2011	165,000	50,125	215,125
2012	170,000	42,700	212,700
2013	180,000	35,050	215,050
2014	190,000	26,950	216,950
2015	200,000	18,400	218,400
2016	200,000	9,200	209,200
	<u>\$ 1,545,000</u>	<u>\$ 373,075</u>	<u>\$ 1,918,075</u>

# Salem-South Lyon District Library

## Notes to the Basic Financial Statements (continued)

### 5. Long-term Debt (continued)

During the year ended June 30, 2007, the Library incurred interest expense of approximately \$75,000.

### 6. Defined Contribution Retirement Plan

The Library provides retirement benefits through a deferred compensation plan, created in accordance with IRC Section 457, to all of its salaried employees who have worked in excess of three months. The plan is administered by the Security Benefit Group of Companies. In a defined contribution plan, benefits depend solely on the amounts contributed to the plan plus investment earnings. There are no employer contributions required by the plan. As established by the Library board, for the June 30, 2007 fiscal year, the Library made a discretionary contribution of six and a half percent of employees' gross earnings. Employees may contribute an amount not to exceed the Internal Revenue Service guidelines. The contributions to the plan for the year ended June 30, 2007 are as follows:

	2007
Employer	\$ 27,083
Employee	28,998
Total contributions	<u>\$ 56,081</u>

### 7. Property Taxes

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Library's 2007 ad valorem tax is levied and collectible on December 1, 2006 and is recognized as revenue in the year ended June 30, 2007, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2006 taxable valuation of the Library District totaled \$722.8 million, on which ad valorem taxes levied consisted of 1.0338 mills for operating purposes and 0.3246 mills for debt service. This resulted in property taxes of \$745,929 for operating and \$238,010 for debt service. These amounts are recognized in the respective General Fund and Debt Service Fund financial statements as tax revenue.

### 8. Interfund Receivables and Payables

The amount of the interfund receivables and payables is as follows:

Receivable Fund	Payable Fund	Amount
Debt Service Fund	General Fund	\$ 6,628



## **9. Stewardship, Compliance and Accountability**

### **Budgetary Information**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the General Fund. All annual appropriations lapse at the fiscal year end. The General Fund's appropriated budget is prepared on a detailed line-item basis. The Library does not maintain a formalized encumbrance accounting system. Budget appropriations are considered to be spent once the goods are delivered or the services are rendered.

The Library follows these procedures in establishing the budgetary data reflected in the supplemental information:

1. Prior to March 15, the Library Director submits to the Library Board a proposed operating budget for the fiscal year commencing the following July 1. In May, the budget is legally adopted by the Library Board. The budget presents information by fund and line items. The legal level of budgetary control adopted by the governing body is the line item level. Expenditures at this level in excess of amounts budgeted are a violation of Michigan law.
2. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.
3. Prior to June 1, the budget is legally adopted by a Library Board Resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires the budget to be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the Act are disclosed as unfavorable variances on the budgetary comparison schedule (accounting principles generally accepted in the United States of America) - General Fund and Debt Service Fund.
4. The Library Board must approve any revisions that alter the total expenditures for any activity.
5. The budget as presented has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30, 2007.

## **9. Stewardship, Compliance and Accountability (continued)**

### **Excess Expenditures Over Appropriations In Budgetary Funds**

P.A. 621 of 1978, Section 18(1) as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the supplemental information, the Library's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a fund, functional and line item basis.

During the year ended June 30, 2007, the Library incurred no expenditures in excess of the amounts appropriated.

## **10. Risk Management**

The Library is exposed to various risk of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employee's and natural disasters.

The Library carries commercial insurance for employee injury claims and participates in the Michigan Townships Participating Plan for claims relating to property loss, torts and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Townships Participating Plan operates as an insurance purchasing pool for local units of government in Michigan. The Plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

## **11. Reconciliation of Fund Financial Statements to Government-Wide Financial Statements**

Total fund balance and the net change in fund balance of the Library's governmental funds differs from net assets and changes in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenues, expenditures and changes in fund balance. The following are reconciliations of fund balance to net assets and the net change in fund balance to the net change in net assets:

Salem-South Lyon District Library

Notes to the Basic Financial Statements (continued)

**11. Reconciliation of Fund Financial Statements to Government-Wide Financial Statements (continued)**

Total Fund Balance – Modified Accrual Basis	\$ 1,537,110
Amounts reported in the statement of net assets are different because capital assets are not financial resources and are not reported in the fund financial statements	2,127,516
Compensated absences are included as a liability	(20,072)
Accrued interest on long-term liabilities is not due and payable in the current period and is not reported in the fund financial statements	(11,654)
Long-term liabilities are not due and payable in the current period and are not reported in the fund financial statements	<u>(1,545,000)</u>
Net Assets – Full Accrual Basis	<u>\$ 2,087,900</u>
Net Change in Fund Balance – Modified Accrual Basis	\$ 273,862
Capital outlays are reported as expenditures in the statement of revenues, expenditures and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Library books, materials and furniture and equipment	149,860
Depreciation	(184,202)
Decrease in the accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund financial statements	6,460
Accrued interest on long-term liabilities is not due and payable in the current period and is not reported in the fund financial statements	975
Principal payments on long-term liabilities are reported as an expenditure on the fund financial statements	<u>130,000</u>
Net Change in Net Assets – Full Accrual Basis	<u>\$ 376,955</u>

## Required Supplemental Information

Salem-South Lyon District Library  
 Budgetary Comparison Schedule - General Fund  
 Year Ended June 30, 2007

	Original Budget	Final Amended Budget	Actual	Over (Under) Budget
<b>Revenues:</b>				
Property tax	\$ 744,550	\$ 744,550	\$ 745,929	\$ 1,379
Service contract - Green Oak Township	182,000	182,000	205,778	23,778
Fines and fees				
Penal fines	45,000	45,000	49,580	4,580
Fines	20,000	20,000	22,253	2,253
Nonresident fees	-	3,163	3,263	100
Total fines and fees	65,000	68,163	75,096	6,933
State aid	14,500	14,500	17,764	3,264
Gifts and miscellaneous				
Single business tax	3,500	3,500	3,974	474
Gifts and miscellaneous	-	17,637	17,525	(112)
Total gifts and miscellaneous	3,500	21,137	21,499	362
Interest on investments	30,000	30,000	74,141	44,141
Total revenues	1,039,550	1,060,350	1,140,207	79,857

Salem-South Lyon District Library  
 Budgetary Comparison Schedule - General Fund (Continued)  
 Year Ended June 30, 2007

	Original Budget	Final Amended Budget	Actual	Over (Under) Budget
<b>Expenditures:</b>				
Personnel				
Salaries	\$ 495,000	\$ 495,000	\$ 472,657	\$ (22,343)
Employee benefits	53,800	53,800	49,068	(4,732)
Dues and workshops	3,500	3,500	3,497	(3)
FICA expense	37,900	37,900	36,294	(1,606)
Transportation and travel	3,000	3,000	1,893	(1,107)
Total personnel	593,200	593,200	563,409	(29,791)
Library services and materials				
Library materials	98,900	103,803	98,989	(4,814)
Library supplies	8,500	8,500	5,830	(2,670)
Computer supplies	5,000	5,000	4,304	(696)
Cooperative fee	50,000	45,000	35,483	(9,517)
Programs	9,000	9,000	8,991	(9)
Total library services and materials	171,400	171,303	153,597	(17,706)
Facilities and equipment				
Maintenance and repairs	25,000	23,000	20,208	(2,792)
Utilities	48,000	48,000	39,437	(8,563)
Insurance	8,500	8,192	8,192	-
Equipment	130,800	154,178	76,468	(77,710)
Total facilities and equipment	212,300	233,370	144,305	(89,065)
Other expenditures				
Contractual services	25,000	27,000	26,473	(527)
Attorney fees	1,500	1,500	859	(641)
Auditor	6,800	6,800	5,150	(1,650)
Board expenditures	500	500	91	(409)
Office supplies	5,500	5,500	5,231	(269)
Postage	2,000	2,000	1,858	(142)
Telephone	3,800	3,800	1,463	(2,337)
Printing	3,500	3,500	3,075	(425)
Grant expense	-	6,196	4,898	(1,298)
Gift purchases and miscellaneous	-	14,163	5,581	(8,582)
Contingency fund	14,050	14,050	-	(14,050)
Total other expenditures	62,650	85,009	54,679	(30,330)
Total expenditures	1,039,550	1,082,882	915,990	(166,892)
<b>Excess (deficiency) of revenues over expenditures</b>	-	(22,532)	224,217	246,749
<b>Other financing sources (uses)</b>				
Transfers in	-	11,995	11,995	-
Total other financing sources (uses)	-	11,995	11,995	-
<b>Changes in fund balance</b>	-	(10,537)	236,212	246,749
<b>Fund balance - beginning of year</b>	1,155,200	1,155,200	1,155,200	-
<b>Fund balance - end of year</b>	\$ 1,155,200	\$ 1,144,663	\$ 1,391,412	\$ 246,749

## Other Supplemental Information

Salem-South Lyon District Library  
 Budgetary Comparison Schedule - Debt Service Fund  
 Year Ended June 30, 2007

	Original Budget	Final Amended Budget	Actual	Over (Under) Budget
<b>Revenues:</b>				
Property tax	\$ 238,010	\$ 238,010	\$ 238,010	\$ -
Service contract - Green Oak Township	12,005	12,005	11,995	(10)
Interest on investments	4,000	4,000	5,765	1,765
Gifts and miscellaneous	(35,885)	(35,885)	-	35,885
Total revenues	218,130	218,130	255,770	37,640
<b>Expenditures:</b>				
Debt service	206,125	206,125	206,125	-
Total expenditures	206,125	206,125	206,125	-
<b>Excess (deficiency) of revenues over expenditures</b>	12,005	12,005	49,645	37,640
<b>Other financing sources (uses)</b>				
Transfers out	(12,005)	(12,005)	(11,995)	(10)
Total other financing sources (uses)	(12,005)	(12,005)	(11,995)	(10)
<b>Changes in fund balance</b>	-	-	37,650	37,630
<b>Fund balance - beginning of year</b>	108,048	108,048	108,048	-
<b>Fund balance - end of year</b>	\$ 108,048	\$ 108,048	\$ 145,698	\$ 37,630



**Salem-South Lyon District Library**  
**REPORT TO THE BOARD OF TRUSTEES**  
**August 15, 2007**

**Andrews Hooper & Pavlik P.L.C.**  
**Certified Public Accountants**  
**3201 University Drive, Suite 350**  
**Auburn Hills, Michigan 48326**

August 15, 2007

Board of Trustees  
Salem-South Lyon District Library  
9800 Pontiac Trail  
South Lyon, Michigan 48178

In planning and performing our audit of the financial statements of the Salem-South Lyon District Library (the "Library") as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

However, during our audit, we became aware of certain matters that are opportunities for strengthening internal control and operating efficiency. These matters are summarized as follows:

#### **FIXED ASSET ROLLFORWARD**

We noted that the fixed asset rollforward does not include all fixed assets; it only includes fixed assets that are not fully depreciated. We recommend that the Library update the fixed asset rollforward to include all fixed assets that are currently in use by the Library, including fully depreciated fixed assets.

#### **BANK RECONCILIATIONS**

Monthly bank reconciliations are currently being reviewed by the Library Board Treasurer and are prepared by the Administrative Manager; however we noted that there are no notations to support who prepared and reviewed the bank reconciliations and the date these were performed. We recommend that bank reconciliations be initialed and dated by the preparer and reviewer as documentation of the process.

We would be pleased to discuss these matters in further detail at your convenience, to perform any study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of the Library Board, management and others within the Library and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*Andrews Hooper & Pavlik P.L.C.*

Auburn Hills, Michigan